



Kansas Department of Credit Unions

KDCU Newsletter

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Adding “S” to the CAMEL(S)

Should KDCU adopt the Sensitivity to Market Risk measure by adding “S” to the CAMEL?

Credit union regulators for the states of Connecticut, Michigan and Maine have added “S” to the CAMEL as a measure of interest rate sensitivity. By doing so, rate sensitivity is removed from the Liquidity “L” component of the CAMEL with the CAMEL becoming CAMELS. Seven additional states are considering adding “S” to the CAMEL.

History of the CAMEL

The Federal Financial Institutions Examination Council (FFIEC) adopted the Uniform Financial Institutions Rating System (URIRS) in 1979. The UFIRS or CAMEL is a rating system regulators use to summarize their evaluations of the strength and soundness of financial institutions in a comprehensive and uniform manner. The revised UFIRS retained the basic structure and framework of the existing system (CAMEL) while incorporating the emphasis on the quality of risk-management practices with the addition of a sixth component, sensitivity to market risk (CAMELS). The revised UFIRS became effective January 1, 1997. Bank regulators now rate banks using the CAMELS.

Adoption of the “Sensitivity to Market Risk” or “S” Component

Despite adoption of the Sensitivity rating by the FFIEC in 1997, NCUA has not implemented the separate rating of this component. While all regulators specifically review interest rate risk exposure, those discussions and related reporting to credit union officials have been consolidated with the Liquidity Risk as part of the “L” or “Liquidity” rating.

The implementation of the distinct “S” rating is considered prudent by some regulators at this time. Changes in interest rates influence a credit union’s earnings by altering interest-sensitive income and expenses and capital based on the economic value impact on a credit union’s assets and liabilities. Current market conditions, combined with the need for profitability to support growth, require greater risk exposure to maintain earnings. Further, as funding sources and investments become more complex in nature, management of a credit union’s interest rate risk becomes more critical and distinct from the liquidity management processes.

The Sensitivity component of the CAMELS rating system specifically addresses the degree to which interest rate changes can impact a credit union’s earnings or net worth. This component also focuses on a credit union’s ability to measure and monitor its

Interest rate risk exposure.

If KDCU utilized the Sensitivity component (CAMELS), Kansas chartered credit unions would recognize the increasing balance sheet complexity within the industry and ensure improved assessment and supervisory communication regarding interest rate and liquidity risk exposure/management systems.

If KDCU were to adopt the “Sensitivity to Market Risk” or “S” component a plan for implementation would occur. Steps in such a plan might include:

- ♦ Determination of an implementation date.
- ♦ Training of KDCU financial examiners
- ♦ Education of credit unions
- ♦ Revision of examination reports
- ♦ Informing NCUA of KDCU’s decision to incorporate the “S” to the CAMEL

A discussion with the Credit Union Council regarding the proposed change to the CAMEL was held at the June 12 meeting. The Council took no formal action but recommended KDCU not change the CAMEL by incorporating the “S”. What is your opinion?

Realignment of NCUA Examiners

NCUA is now covering the western part of Kansas with examiners assigned from Colorado. For joint examinations or NCUA insurance reviews, Kansas credit unions located in western Kansas will be examined by NCUA examiners assigned out of Colorado. Kansas credit unions are reminded that KDCU examiners are always the examiner-in-charge when joint examinations occur. Questions concerning this change can be referred to your assigned Kansas examiner.

Appointments to the Credit Union Council

Governor Sam Brownback appointed Kirsten Flory, public member, and Lloyd Nugent, Midwest Regional Credit Union as a credit union official to three-year terms on May 19, 2014. He also reappointed Jacque Culley, Central Kansas Credit Union

as a credit union official.

June 30, 2014 Call Report Cycle

Call report materials will be mailed to credit unions on July 2, 2014. The deadline for credit unions to have their call reports completed and certified on Credit Union Online is Friday, July 25, 2014. Affidavits are due to the KDCU Office on Friday, August 22, 2014.

Credit unions are reminded that NCUA and KDCU can issue civil money penalties to credit unions who file call reports late. During the March 2014 cycle, 4 Kansas credit unions were cited by NCUA for failing to file their call report by the required date.

Filing Tax Returns

Credit unions are to file IRS Form

990 by May 15, 2014 or request an extension of the filing date. Credit unions with unrelated business income are also required to file IRS Form 990T and the Kansas Department of Revenue Form K120.

The members of the board of directors should review the completed forms to ensure they know what is being reported and its accuracy. Form 990 specifically asks if the organization provides a copy of the form to all members of the governing body before filing. Web sites such as Foundation Center <http://foundationcenter.org/findfunders/990finder/> publish 990s on their website.

Tax questions are best referred to licensed public accountants.

Bulletins Issued

Since the last newsletter three bul-

letins and one Newsletter were published. KDCU bulletins and newsletters are e-mailed to credit unions and are on the KDCU web site at www.kansas.gov/kdcu/.

Jayhawk Federal Credit Union Closes, Shares Assumed by MidAmerican Credit Union, Wichita, KS

On March 31, 2014 NCUA with the approval of the KDCU Administrator, transferred the field of membership, members assets, shares and loans of Jayhawk Federal Credit Union, Lawrence, KS to MidAmerican Credit Union, Wichita, KS. The Administrator has approved MidAmerican Credit Union operating a branch in Lawrence, KS.

CREDIT UNION COUNCIL MEETS

The Credit Union Advisory Council met on June 12, 2014 at the KDCU Office. Council members attending were , Dan Springer, Vice Chair, Deann Shinkle, Secretary, Larry Damm, Rita Hartman, Kirsten Flory, Lloyd Nugent and Jacque Cully. KDCU staff present were John P. Smith, Administrator and Michael Baugh, Financial Examiner Administrator. Guests: Marla Marsh and Haley DaVee, Kansas Credit Union Association.

The Council reorganized electing Dan Springer, Chair, Larry Damm, Vice-Chair and Rita Hartman, Secretary.

The Council received and discussed several reports:

- ♦ Administrator's Report,
- ♦ KDCU financial reports,
- ♦ Kansas credit union condition,
- ♦ Change in credit union bylaws, articles of incorporation, credit union mergers, administrative actions, number of credit unions on monthly reporting, frequency of examinations, and new branches approved.

At the Administrator's request the Council discussed the possibility of adding the "S" indicting interest rate sensitivity to the CAMEL. The Council's advice to the Administrator was not to add the "S" at this time.

Haley DaVee reported on KCUA Compliance sessions and the KCUA Annual Meeting.

Kansas Corporate Credit Union's Larry Eisenhauer submitted KCCU's quarterly report.

The next meeting of the Credit Union Advisory Council will be held Thursday, September 25 at 10 a.m. in the KDCU Topeka office conference room.

Council meetings are public meetings open to credit unions and the public. Meeting notices and agendas are on the KDCU web site at www.kansas.gov/kdcu/.

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